The India Growth Story is Here to Stay

Recently, the Central Statistics Office data revealed that India's industrial growth slowed to a 20-year low of 1% in 2012-13. This news came in the backdrop of the recent RBI annual monetary policy estimates of the Indian economy having slowed to a 10-year-low of 5% in 2012-13, providing enough fodder to the doomsayers. But while proactively projecting the pessimism, they failed to give any credit to the fact that even 5% growth is an achievement in itself if we look at the gloomy global scenario with a figure of only 3.2% growth in 2012, down from 3.9% in 2011. Even with 5% growth rate, India remained one of the fastest-growing large economies in the world, despite the worst possible confluence of adverse global and domestic factors. Indeed, our economy is going through a bumpy ride with the persistence of the global slowdown, but with strong credentials and fundamentals, the India growth story remains credible and is here to stay. Given India's robustness and the proactive economic and fiscal reform measures of the Government, the economy is bound to rebound sooner or later to achieve at least the generally projected growth rate range of 5.7% and 6.7% in 2013-14, despite some prevailing concerns. Here, one must agree with Finance Minister P Chidambaram who said at a recent Asian Development Bank meeting that *"India's potential growth rate is 8%+ and we cannot afford to become complacent and sit back. India has Inherent Strengths…"*. India has set itself a target of over 8% annual growth during the Twelfth Five Year Plan, which runs from 2012 to 2017.

Thus far, what we have seen of the fourth quarter of 2012-13 corporate results and macroeconomic numbers suggests that growth did see an uptick over the abysmal 4.5% registered in the third quarter of 2012-13, whereas the global economy is yet to recover from the economic meltdown of 2008. IMF expects advanced developed economies to grow at only 1.2% while developing Asia is expected to grow more than five times faster at 7.1%. China and India accounted for 35% and 10% of world growth respectively in 2012-13. *"India's growth is likely to be high and sustained for decades because first, India's population is young. According to a recent IMF study, India's demographic dividend could add about 2% to per capita GDP growth over the next two decades,"* rightly said the Finance Minister, adding that India's household final consumption is a healthy 57% of GDP. *"As incomes grow, a significant portion of them will be spent. In recent years, growing rural demand has added to healthy urban middle class consumption demand growth, buffering India somewhat, though not entirely, from paucity of aggregate demand that plagues the world."* Further, India is focusing on building world class infrastructure and this policy thrust has spin-offs in terms of job creation and enhanced investments in the manufacturing sector. These factors underlying India's growth prospects are supported by many other drivers like the energy and vibrancy of our entrepreneurs, a strong services sector, emerging knowledge spheres and sunrise sectors, and a large and growing number of professionals and scientists.

However, some concerns, including those regarding the industrial sector, need to be addressed on priority. The current situation calls for an easing of the monetary policy. Recently, the Reserve Bank of India marginally cut the repo rate by only 25 basis points (to 7.25%). The fall in industrial and services growth has been a global phenomenon in recent years, as corroborated by softening Purchasing Managers' Index (PMI) data. As such, many central banks across the world have cut interest rates. We may consider following suit for the sake of industry. But while doing this, we need to also take into account the upside risks on inflation and current account deficit which still remain significant in the near term. In addition to monetary policy intervention, there is an urgent need to take measures to ease supply constraints in the economy and encourage investment, besides reiterating commitment to fiscal consolidation and controlling outgo on subsidies through better targeting. Our fiscal deficit, estimated at 5.2% in 2012-13, and the projected gap between demand and supply of skilled workforce are other concerns. However, it is welcome that the government is, separately, aiming at skilling 500 million youth by 2022 through the ambitious Skill Development Program. About $2.5 billion is spent on training rural below-the-poverty-line youth.

What is also important is that we do not shift our focus from the inclusive growth agenda. Prime Minister Dr. Manmohan Singh was correct when he said at the inaugural session of the 46th AGM of the Asian Development Bank that *"High economic growth is essential. But it cannot be an end in itself. The benefits of rapid growth must necessarily lead to betterment in the lives of the common people. Equitable distribution of the fruits of development requires the pursuit of development through empowerment of people. This is the key to inclusive growth."*

It is necessary that growth processes are made inclusive and sustainable. This is not just a social and political imperative, but also a sound economic underpinning for sustained long term growth.

-Editorial Board

ICAI – Partner in Nation Building